The future of the financial workplace: Banks, workplace and property in a changing world

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ABSTRACT

The global financial crisis has been a wake-up call for the banking industry, which has faced increased costs and regulation coupled with reduced profit margins. This situation has resulted in cutbacks in people and property, and many workplaces have not evolved relative to other sectors such as technology, media and telecommunications (TMT). Consequently, banks are in danger of missing out on new opportunities associated with changes in consumer demand, the continuing technology revolution, evolving worker requirements and the so-called 'war for talent'. This paper identifies five key forces impacting the banking sector, assesses what these mean for the future of banking and the workplace, and makes recommendations as to how banks should respond. The paper references a recent DTZ and Unwork report that leveraged 100 interviews with senior figures in the world's largest retail and commercial banks. The paper provides insights that corporate real estate executives, in banks and other sectors, could use to inform workplace strategy and business planning.

Keywords: banking, workplace, regulation, cost, technology, location, talent, organisational structure, retail, prediction, strategy

INTRODUCTION

The global financial crisis has been a wake-up call for the banking industry, which has faced increased costs and regulation coupled with reduced profit margins. This situation has resulted in cutbacks in people and property, and many workplaces have not evolved relative to other sectors such as technology, media and telecommunications (TMT). This is important because banks now are not only competing with other institutions for staff but with the likes of Google and Microsoft — companies that have spent the past decade investing heavily

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in creatively appealing workspaces to attract talent. With employees listing workspace followed by salary as their top priorities in any job, banks are losing their traditional place as employers of choice and will have to work harder to attract new staff.[1]

Cyclical and structural forces (identified below) mean that banks need to invest significantly in their workplaces and work technology, offering better environments and more flexibility in the same way that other industries have done over the past ten years. Moreover, banks need to fundamentally change the size, shape and location of their property and workspaces in order to adapt to the challenges of talent retention, technology, geography, cost pressures and increased regulation.

A recent report by DTZ and Unwork looked at the future of the financial workplace in detail.[2] The report identifies five key forces impacting the banking sector, assesses what these mean for the future of banking and the workplace, and makes recommendations as to how banks should respond. The report is the culmination of more than 100 interviews with senior figures in the world's largest retail and commercial banks, in addition to key people in the property and human resources (HR) industries. The report identifies and assesses workplace best practice across the world, and includes exemplar case studies from as far afield as Australia, the Netherlands, the UK and the USA.

THE FIVE CYCLICAL AND STRUCTURAL FORCES DRIVING CHANGE IN GLOBAL BANKING

DTZ and Unwork have identified *five forces* that are driving changes in the way that banks in general think about workplace and property, and the extent to which these are already having an impact.[3] Some of these forces, such as increasing regulation, are unique to banking but others are relevant to most service industries.

Regulation

Banking, perhaps more than any other industry, is highly politicised thanks to the public bailouts of the largest banks deemed 'too big to fail' and the deluge of bad press about financial scandals. This situation has given politicians the impetus to push through regulation at a speed that makes it difficult to reflect fully on its impact. The banks interviewed by DTZ all highlighted regulation and compliance as two of the main limiting factors for property, which were clamping down on their ability to be flexible and driving the main headcount increases in the top financial centres. Apart from the limitations on the types of products banks can develop and the way in which they work, the vast increase in regulation is having a significant impact on real estate and the workplace. Segregation of space has become the norm for demonstrating compliance, but this goes against the drive towards more open, flexible, collaborative and innovative work environments. Banks stated that regulators are refusing to be drawn on how new regulations should be interpreted, pushing many banks to adopt a more conservative interpretation of the rules in order to ensure compliance. Much of the problem is caused by a lack of clarity from governments. Despite this, in some regions, including Australia and the Netherlands, there has been a widespread introduction of initiatives to challenge established ways of working. The extent of the introduction of new work styles means that a sea change is underway, with current new buildings in some banks realising alternative office concepts for all functions outside of trading. An example is National Australia Bank (NAB), which has developed an impressive approach to its 'Smart Store' by removing barriers and the counter and instead opening up the space so that it engages customers and encourages them to interact with products and staff. Similarly, its headquarters in Melbourne allows the public to pass through parts of the building in sight of the staff, reinforcing the perception of transparency and openness.

Cost pressures

In the majority of cases, margins in the banking industry are beginning to recover after a significant drop in the years after 2008. Yet, while profits are on the increase, none of the banks interviewed by DTZ believed that margins will return to anything like 2007 levels. In an era of very high margins, cost reduction becomes less important, but banks are now looking much more closely at the cost of real estate, which is the second largest overhead for banks after salaries. Property portfolios are typically highly inflexible and poorly utilised, with leases of 25 years and utilisation rates of 45 per cent not uncommon. This is despite the fact that average lease lengths in the UK, especially for non-prime property, have shortened over recent years.[4]

Lease events offer a trigger for banks to reconsider their location strategy, headcount numbers, different models of off-shoring (moving work to a distant, geographically disparate company or location with a view to reducing operation or production costs), near-shoring (transferring business processes or technology to companies or locations in geographical proximity) and centres of excellence, as well as to study their work styles. In the first few years after 2008, the largest number of staff losses came from the top financial centres, but as the global economy stabilises it does not follow that headcount growth will return to where it was lost. But neither is off-shoring necessarily the most attractive option at the moment. Regional centres of excellence and near-shoring are winning in the competition for growth, taking advantage of significant cost of employment ratios between on-shore and near-shore locations. This also retains the similarity and resilience of infrastructure necessary for banks; however, for banks locating headcount outside of the top global centres, two key challenges remain. First, finding locations with a strong supply of suitable real estate and, secondly, meeting local laws requiring a physical presence to operate in some markets.

Technology

Since 2008, banks have invested minimally in technology development as they concentrated on maintaining existing systems and their core business;[5] however, with a stabilising economy, the majority of the banks interviewed by DTZ have begun to increase their investment in technology. While the banks took their eye off technology, the key players in the FinTech industry (FinTech companies are typically involved in technology that connects with or delivers financial services), such as Infosys and NCR, have begun to make their challenge by introducing new platforms, free from siloed and legacy information technology (IT) systems. In addition, new technology has enabled crowdsourcing, microfinancing and peer-to-peer networks to encroach onto the banking playing field. All this is challenging the '*raison d'être*' of traditional banks.

Having seen the digitisation of the retail and air travel industries, customers are demanding something similar from other industries, including banking. It is this customer demand that is the main push for banks to digitise their product offerings. Significantly, banks need to contend with an internal technological drive as well, with employees expecting far more from the technology they are provided with to do their jobs, and demanding the ability to use their own technology at work. Many of the banks interviewed by DTZ — in common with large organisations across many other industries — have siloed, traditional IT departments that resist such change and are often one of the main obstacles to digitising the workplace. Other sectors that rely on absolute security of information and are highly regulated — including law firms and pharmaceutical companies — are adopting more mobile and cloud-based technologies without compromising their business or clients. For example, Lawcloud provides practice management technology to hundreds of legal practices in the UK. This suggests that banks similarly could utilise this type of technology.

Geography

In an increasingly globalised economy and with the associated growth of Brazil, Russia, India and China (BRICs) and other emerging economies, global banks are faced with myriad geographic opportunities and challenges. Although New York, London and Tokyo remain the world's key financial centres, second and third tier cities in emerging markets are increasingly challenging the established order. Nevertheless, Westernised economies remain attractive because of the rule of law, relatively low corruption levels and strong regulatory environments.

Geographical clustering is especially powerful because it enables banks to access the right skills, customers, suppliers and partners, among other factors. It also helps to drive the real estate industry that supplies suitable space. This clustering has led to increased rents and total occupancy costs, with major financial centres being among the top 30 most expensive markets globally (although some very expensive cities are driven by other sectors such as oil and gas). Banks have responded by shifting to less expensive locations. For example, banks moved operations out of the City of London to cheaper and newer space in the Docklands in the 1990s and 2000s. And, more recently, banks have relocated back-office operations to numerous low-cost countries.

These geographic shifts, alongside increased real estate costs in mature markets, have led to the average space per worker shrinking by 25 per cent from 16.6m^2 (178ft^2) to 12m^2 (129ft^2) globally over the last ten years.[6] Nevertheless, banks and the financial sector in general remain significant employers, attracting 21 per cent of graduates in London and 10 per cent in New York.[7] Consequently, banks need to structure themselves such that they ensure they take advantage of trading in the strongly regulated top financial centres, as well as increasing their presence in growing markets.

Talent

As the global economy picks up, bankers report that they are feeling a significant shift in the war for talent as the balance of power transfers from the employer to the employee.[8] Interviews with 100 senior bankers suggested that around 30–50 per cent of banking employees are engaged in IT and technology related roles.[9] Consequently, banks are competing not only with their direct market competitors, but also with the likes of Google and Microsoft — companies that have spent the last decade investing heavily in work, work methods and their workplace.

Expectations of the workforce are also changing, mostly driven by a generational shift, with generation Y soon to become the largest group in the workplace. In a 2012 survey, graduates in the UK were asked what factors made an employer attractive to them as an 'employer of choice'. The top factor with 82 per cent was 'a good workplace environment', followed by 81 per cent saying 'good salary and benefits'.[10] With this new generation also comes a change in career-long expectations, with most expecting to move roles (and often companies) every three years.[11] Banks are therefore looking at ways in which they can ensure employees who leave become ambassadors for the company, as well as looking at ways of attracting people back after they have taken up roles elsewhere.

SEVEN PREDICTIONS FOR THE FUTURE OF BANKING AND THE WORKPLACE

DTZ and Unwork have identified *seven key predictions* about how the banking industry will change regarding property, work and the workplace over the coming few years. These predictions also are likely to have relevance for many other service industries, especially professional services such as accountancy and law.

Building walls: Separation and control

There is a concern that regulation, compliance and risk will constrain banks in their ability to innovate and be creative. But banks can and should challenge the assumption that regulation stifles innovation.

- The global financial crisis and associated mis-selling scandals have created an atmosphere of distrust and supervision, separation and control.
- As the regulators refuse to clarify the effect of regulation on the workplace, many banks will be inclined to take the conservative, safe option and put up physical and digital barriers in the workplace, stifling innovation.
- Innovative banks will use a more intelligent interpretation of the new regulation, which will create the necessary segregation through technology, while still allowing them to create flexible and open work environments. Banks that do not work around this will struggle to attract the right talent. A good example is NAB which, when it opened its first building in Melbourne's Docklands at 800 Bourke Street, created an exceptional building that centred people around an open atria and introduced a sense of transparency. This design allowed people to connect and see the business at work.

Property-free expansion

Banks will expand their service offering and product portfolio without a proportionate increase in real estate.

- There will be a shift in banking-sector property portfolios driven by the desire to improve customer satisfaction with more customised solutions, while concurrently achieving the goal of reducing space.
- Traditional banks, which have the most complex and mature product offering, also occupy a huge amount of real estate, as historically proximity to customers through local offices and branch networks was the only way to grow the business.
- At the other end of the scale, online-only banks have a low product complexity, but almost no physical footprint. With today's technology, it is now possible for banks to break the link between physical presence and market presence and to have a highly complex product offering with a small property portfolio. Retail customers who need to deposit cash — a small and decreasing minority — will be offered new services that allow them to deposit cash through retailers or stand-alone services.
- An example of property free expansion is ABN Amro, which uses standardised measurements across all of its sites in the 54 countries where it operates. This benchmarking process has enabled ABN Amro to target sites that could benefit from optimisation and resulted in significant cost-savings. One particular success was in Singapore where the office space was able to absorb an increasing site population within the existing portfolio by reducing each individual's space requirements.

Urbanity rules

Banks will consider moving out of traditional, financial central business districts (CBDs) and locating core functions in mixed-use, vibrant, connected urban environments (CUEs).

- Large floor plates (over 2,700m^2 or 30,000ft^2) are in demand for all banks and financial institutions — primarily for trading functions, but also to increase collaboration and productivity for other

functions. In many financial CBDs the demand for real estate has increased the viability of tower buildings providing smaller floor plates; however, the supply of larger floor plates is more constrained.
- Banks will consider moving towards the 'horizontal high-rise' in mixed-use CUEs that traditionally have not been the domain of the financial occupier. CUEs bring together business, academia and culture with retail and residential in the same community and offer excellent transport and internet connectivity. This challenges the traditional split between business in the CBD and retail, culture, residential and academia elsewhere.
- In these locations, banks can form a symbiosis with the local community, which will be crucial for attracting the best talent in the future. Simultaneously, they can continue to occupy statement buildings, maintaining the 'building as the brand' tradition.

New kids on the block demanding change and innovation

Talent attraction and retention in a market where banks are competing with technology and media firms will require a different approach to work and the workplace. Banks should adopt more innovative strategies and invest significantly in technology.

- Young talent wants to work in vibrant city districts, busy hubs that combine offices, retail, arts, culture and residential — particularly in both Europe and the USA.
- As competition for talent is no longer confined to the banking and financial services industry, and as banks start to compete directly with media and technology companies, banks will struggle to remain 'employers of choice' in developed markets. As a result of this the average age of bank employees is likely to rise.
- To meet the challenges of attracting young talent in this more fluid era, banks should start to invest significantly in their workplaces and workplace technology, offering better work environments and more flexibility in the same way that the technology industry has done in the past ten years. There needs to be widespread introduction of agile working environments and increases in the ability to work outside of the office for most functions. NAB has been an exemplar of this strategy.

The mobile revolution

Consumerisation and outsourcing of technology should become the norm. Banks should adopt a new model for technology and systems development, as employees demand increasingly more consumerised and individualised technology to work with.

- Banks traditionally have kept the majority of their technology development in-house, citing security as the main driver. But this is inefficient in terms of ensuring they have the right knowledge and skill sets for all types of development, making the creation of cutting-edge products more challenging.
- Banks should begin to outsource technology development, harnessing new ideas and expertise from other industries to plug this gap and allowing them to fully compete in a consumerised marketplace.
- At work, banks should allow employees to bring their own device ('bring your own device', BYOD), as well as expanding the availability of corporately owned but personally enabled (COPE) devices. A COPE policy allows employees to use smart devices for personal use, while giving banks control over the security of the technology.

Shaking up the bank structure

The prediction is for shrinking middle and disappearing back offices. Automation will remove back and middle office jobs and result in a significantly reduced requirement for real estate.

- Consumers and clients of retail banks will continue to push for digital banking and services, presenting challenges for banks with legacy technology infrastructure and geographically dispersed regional property portfolios.
- Banks that fail to invest in technology will suffer compared to leading innovative banking brands that invest substantially in client and customer facing technology, applications and services. In order to provide these digital services at the front end, banks will need to digitise internal processes and workflows, and therefore will automate significant proportions of back and middle office jobs.
- A recent study by academics at Oxford University suggests that 47 per cent of today's jobs could be automated in the next two decades. Banks will be able to use this opportunity for significant rationalisation and consolidation of their property portfolios, with resultant significant cost reductions and reduced complexity in the portfolio.[12]

Omnibank: Physical meets digital

Banks should use the return of the service-led high-street presence and the disappearance of processing at a local level to drive a new model of retail banking, and a more interactive relationship.

- Footfall levels in retail branches will continue to fall at dramatic rates, forcing banks to respond with a whole new model of retail banking. Retail banking's saviour will be customer interaction and, as banking goes digital, the physical space will need a new *raison d'être*.
- This will lead to more consumer-focused branch designs, where customers can socialise, drink coffee and work, as well as do their banking.
- The rise of a hub and spoke location model also will be seen, with only city-centre branches offering full services, and a network of kiosks and pop-ups to replace suburban branches.

WHAT BANKS NEED TO DO NEXT

Banks need to take the five forces and seven predictions into account when creating their workplace strategies. DTZ and Unwork make six 'calls for action'.

Collaboration across boundaries

Banks are already global organisations, and some teams within these have pioneered a global way of working and collaborating. Consequently, there is an opportunity for many more teams to become global, expanding the possible talent pool significantly and allowing different cultural approaches to combine in solving the same problem. Product development teams — in both investment and retail banking — also will be able to work faster as global collaboration enables 24-hour development cycles, quickening the speed to market and reducing reliance on any particular region for innovation.

CBD and secondary locations strategy

The bigger banks will continue their shift out of CBDs in the developed financial centres, with the eventual aim of leaving only a core of executives, client-facing teams and some support staff in the most expensive locations. All middle, back and remaining front-office staff will be located in cheaper, but not out-of-the-way locations, to ensure a balance of cost and talent acquisition. Centres of excellence will predominate for back and parts of middle offices, probably on a regional rather than country basis. In the growing and new financial centres, banks will continue to locate themselves in CBDs as a way of establishing their business, but as these financial centres grow and costs increase, the same trend out of the CBDs will occur here too. For example, Royal Bank of Scotland's (RBS's) Choice programme has enabled it to exit nine office buildings in central London, with significant associated cost-savings.

Cost models

Cost and its reduction will remain key goals of any real estate and workplace strategy — twinning with better occupancy ratios and better actual occupancy. According to the banks interviewed by DTZ, workplace costs — as a proportion of operating costs — today are typically between 8 and 11 per cent for an efficient bank, but there is significant scope to reduce this through the introduction of flexible or activity-based working (ABW).[13] Through adopting agile working and cloud-based technologies and services, organisations will be better able to charge departments and business units for their workplace by need and use, rather than by legacy. This idea of workplace as a service (WaaS) will radically transform business units' understanding of the cost of their workplace, and will drive innovation in its use and the demand for greater flexibility.

One head of real estate interviewed by DTZ suggested the ideal would be a smaller presence in the centre of London with satellite working centres around the edge of the city to reduce the cost of space, and to provide enhanced work-life balance for employees. For example, Lloyds Banking Group's WORKwise programme is enabling it to remove 1,000 desks from its London real estate over the next two years and save £10m.

Agile working

Banks will start to bring in ABW environments — an approach to work that does not require a traditional office, but a 'hybrid environment' that provides a place for people with shared amenities and spaces — to a significant extent. This will allow them to meet various challenges, ranging from cost, attracting and retaining talent, to supporting fast-changing and project-based working methods. With average offices occupied less than 50 per cent of the time, dramatic improvements in efficiency can be achieved and a new way of working can allow banks to grow in headcount without taking on any additional space or increased overheads.[14] Typical space savings of 30 per cent are easily achievable through ABW, with a typical return on the fit-out investment within a five-year period.[15] Such changes also increase velocity (speed of decision making) and pulse (energy in the environment) through improved density, bringing people together in environments that stimulate conversation, communication and collaboration. Organised collaboration as well as serendipity play equal parts in increasing knowledge flow and kindling innovation. This may mitigate, to a degree, the above-mentioned trend to leave the CBD.

The commercial benefits of agile working are exemplified by Lloyds Banking Group's WORKwise programme, which has led to a reported 3 per cent rise in income and revenue. Similarly, RBS's Choice programme, initially driven by real-estate efficiencies, has evolved into a broader proposition encompassing technology, HR and property. The goal of the programme is to create an inclusive, flexible working environment and culture where RBS can respond to the needs of its customers with agility, while, at the same time, providing employees with influence and control over their work-life balance. Similarly, Macquarie report that ABW at its Shelley Street building in Sydney has resulted in 90 per cent employee satisfaction.[16]

Presence of the community

Always-on video links between different sites or teams are the future of instantaneous collaboration across boundaries and geographies. Instead of video technology being limited to certain rooms, which in some cases are prioritised for leadership, today's situation utilises video more as a formal communication method than an informal collaboration method. The future of video collaboration will include these always-on links, which can be termed 'presence of the community'. These will not only increase collaboration potential, but will foster a feeling of community between global team members, and a sense of unity across the organisation. An example is Bank of America Merrill Lynch, which is utilising video phones to enable colleagues to collaborate in 'face-to-face' meetings.[17]

Continued heavy investment in technology

Banks have already started and should continue to invest heavily in online, web-based and mobile technologies — both for internal and customer use — to ensure that they can continue to compete with new players coming into the payment space, and other incursions into traditional banking territory. Those that do not invest will be left with a legacy of older customers on the retail side, but will not be able to attract younger customers. And, from an internal perspective, a lack of investment in technology and automation will result in far higher costs than competitors, lower share prices and a shrinking business. According to Bank of America Merrill Lynch, technology enabled 'smart working' is essential to organising work and connectivity which will drive the business into the future.[18]

CONCLUSION

The fundamental changes caused by the impact of the global economic crisis have had far-reaching effects on business generally, and on banking especially. These effects, coupled with changes in consumer demand and the rapid and continuing technology evolution, mean that property portfolios and workspaces need to adapt accordingly. There will be a shift in banking-sector property driven by a desire to improve customer experience and satisfaction, while concurrently reducing overall portfolios. Traditional banks that have the most complex and mature product offering also occupy a huge amount of real estate. This is because proximity to customers through local offices and branch networks was the only way to grow the business historically. At the other end of the scale, online-only banks have a low product complexity, but almost no physical footprint. Through technology, it will be possible for banks to break the link between physical presence and market presence, in order to have a highly-differentiated service offering with a small property portfolio.

Footfall levels in retail branches will continue to fall at dramatic rates, forcing banks to respond with a whole new model of retail banking. Retail banking's saviour will be customer interaction, and as banking goes digital the physical space will need a new *raison d'être*. This will lead to more consumer-focused branch designs, where customers can socialise, drink coffee and work as well as bank. A hub and spoke location model, in which only city-centre branches offer full services supplemented by a network of kiosks and pop-ups, will replace traditional suburban branches. In short, customers will have increasing levels of choice to suit their particular circumstances.

From a head-office perspective, banks will consider moving out of traditional CBDs and locate core and (some) executive functions in mixed-use, vibrant CUEs. They will consider moving towards the 'horizontal high-rise', out of their traditional CBD environments, into mixed-use places like King's Cross in London. In these locations, they can form a symbiosis with the local community, which will be crucial for attracting the best talent in the future. Simultaneously, they can continue to occupy statement buildings, maintaining the 'building as the brand' tradition.

The fundamental challenge for banks, at least in the medium term, centres around the vast increase in regulation that is having a major impact on their real estate. Segregation of space and function has become the norm to demonstrate compliance. This trend, however, goes against the drive towards flexible, innovative and collaborative work environments. The institutions that best manage this dichotomy will be best equipped for future success.

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